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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000453

SENSITIVE  
SIPDIS

DEPT PASS TO USTDA-PMARTIN, EXIM-JRICHTER, KJACKSON  
DEPT PASS TO USTR-AGAMA  
DEPT PASS TO OGIC  
JOHANNESBURG FOR NAGY  
TREASURY FOR TONY IERONIMO AND ADAM BARCAN  
DOC FOR 3317/ITA/OA/BURRESS AND 3130/USFC/OIO/ANESA/REED

E.O. 12958: DECL: 11/30/2019

TAGS: EFIN ECON PGOV NI

SUBJECT: AMBASSADOR MEETS WITH STANDARD CHARTERED BANK

Classified By: A/CG Richard Walsh for reasons 1.4 (b & d)

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SUMMARY  
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¶11. (SBU) The Ambassador met with top management of Standard Chartered Bank, which is growing in Nigeria by focusing on profitability, not size. Standard Chartered offered their approval of Central Bank Governor Sanusi's reforms with some criticism of previous Central Bank Governor Soludo's actions. Standard Chartered believes the banking sector will rebound soon, despite dubious past practices by some in the sector. END SUMMARY.

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STANDARD CHARTERED GROWING IN NIGERIA  
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¶12. (C) The Ambassador met with Standard Chartered (SC) Managing Director Christopher Knight, Head of Global Markets Roger Woodbridge, Head of Corporate Banking Remi Oni, and Head of Client Coverage Olukorede Adednowo at SC offices in Lagos November 6. Knight mentioned that SC had 12 offices at the end of 2007 in Nigeria and hoped to grow to 50 by 2012. SC targets consumer banking in the high-end and middle market, which Knight defined as those earning USD 4,000 per annum and above. On the corporate side, their target clients are core companies in need of cash services such as distributors and suppliers. SC locates its retail offices in urban centers, close to target customers, as opposed to its corporate offices, found in both urban and rural settings.

¶13. (C) SC seeks profitability, not size, according to Knight. SC's share of the market is small at two percent while, in their target market, they have a four percent market share. They lead the sector in return on equity (ROE) at 34 percent and return on assets (ROA) at six percent. The closest bank to SC has a ROA of three percent. SC is number one on profitability.

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SANUSI VS. SOLUDO  
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¶14. (C) The Ambassador queried what SC thought the Central Bank of Nigeria (CBN) was doing right or wrong. Knight responded by referring to a recent media event that labeled the CBN Governor the "Sanusi Tsunami" for his quick and drastic actions. Knight continued that, since 2008, all bank

managers knew that problems existed. Banks that had made large numbers of margin loans were drastically affected when the stock market precipitously declined. The rumors of abuses that had been circulating were confirmed. SC was hesitant to work with other Nigerian banks by the end of 2008, in that they did not know where these other banks stood in terms of liquidity.

¶15. (C) Former CBN Governor Soludo made matters worse, in Knight's opinion, when he supported banks by pumping in more liquidity. Soludo established the extended discount window (EDW) and broadened the types of assets that banks could use as collateral. The EDW was supposed to be a temporary fix for banks with infrequent liquidity problems but the problem banks became permanent customers of the EDW. The Ambassador wondered if, in hindsight, Soludo had erred in providing more liquidity. Knight responded by comparing Nigeria to Japan of the 1990s and the prolonged banking crisis there. Knight stated that Sanusi wanted to avoid becoming another Japan hence his "Sanusi Tsunami." Time will tell whether Sanusi has been effective but, so far, the GON has supported Sanusi. The trick now is to "keep up the pressure and not let the initiatives wither," per Knight.

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#### DUBIOUS BANK PRACTICES

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¶16. (C) The Ambassador queried if Soludo did not create the EDW would the problems with the banking sector come to light sooner? Knight answered that interest rates were increasing, deposits were commanding a 25 percent rate, so

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bank loan interest rates had to be higher to cover costs. The EDW became a necessary source of liquidity, and matters would have been much worse without the EDW. The situation deteriorated further after Soludo placed caps on interest rates in April of 2009 due to banks offering a flat fee on top of the interest rate, effectively skirting the cap.

¶17. (C) The Ambassador queried whether more banks with troubles awaited detection. Knight thought that 80 to 90 percent of the trouble in the banks had been uncovered. Knight continued that, with the balance sheet profit and loss analysis now made available, international investors can see a more accurate picture of banks for the first time.

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#### DEMAND FOR GOODS EXISTS BUT NOT FOR CREDIT

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¶18. (C) SC Head of Corporate Banking Remi Oni, in describing the corporate banking market in Nigeria, said distributors failed to pick up manufactured goods due to the lack of credit. Consumer demand exists, but the distributor is not able to buy inventory due to banks not lending. This remains a problem across all of Nigeria. Prices are cut for those who produce non-perishable goods. The producers of perishable goods pass on credit to the distributor if they trust them. The result has been a slump in sales. The first half of 2009 benefited from the 2008 momentum but that came to a grinding halt with the actions of Sanusi. Demand is growing even more with the holiday season around the corner.

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#### STOCK MARKET VIABLE

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¶19. (C) Knight stated that the foreign investment interest in Nigeria was still there and that the Nigerian Stock Exchange (NSE) was still low. Transparency was needed for investors to know exactly what they were investing in. The banks were a large percentage of the NSE capitalization. It will take three months to determine the fall-out with the banks now in a state of flux. Knight is hopeful for a sane fourth

quarter, which should help the NSE.

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BOND MARKET REBOUNDING  
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¶110. (C) Head of Global Markets Roger Woodbridge stated that the corporate bond market was coming back, as was the ability to raise debt. Historically, the bond market was a large tax impediment and had not been used well. SC was fortunate in that they had significant demand from U.S. and UK hedge funds that were pro-Nigeria. SC has taken advantage of its international skills to reach out to the global bond market. Most Nigerian banks, however, do not have a similar global reach.

¶111. (C) Woodbridge stated that the CBN has two challenges. First, the CBN must be brutal, up front, and honest in meting out punishment. Secondly, the economy itself is a challenge, with the economy breaking even if oil is at \$50 per barrel. CBN Reserves look like they will be increasing while inflation should decrease to nine percent or less. The interbank market is very short right now at seven days. Banks are only willing to lend to each other for no longer than one week. The activity in the near future should be in bonds, treasury bills, and securities since most credit is shut down. Woodbridge continued that the CBN is faced with a money supply that is greater than the demand. The economic slowdown is one cause, while the repatriation of dollars to pay off bad loans is a second reason.

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QUESTIONS FROM STANDARD CHARTERED  
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¶112. (C) The Ambassador asked if Standard Chartered had any questions or concerns. Knight queried whether the United States was less interested in Nigeria than other countries. The Ambassador took the opportunity to discuss the Binational Commission (BNC) and the proposed working groups on

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elections, corruption, energy and investment, and the Niger Delta. The Ambassador mentioned sanctity of contracts, an area where the Embassy has advocated on behalf of U.S. companies and which represents one of the larger impediments to foreign direct investment. Knight stated that the &fear is slightly ahead of tremendous interest.<sup>8</sup> He said SC has sanctity of contract issues with a new branch they are building where the owner of the land now wants more money even though he agreed to the project. The Ambassador concluded by observing that the United States must dynamically court the immense resources that exist in Nigeria, both human and natural but on a level playing field. &It all comes down to leadership." she added; "You need good leaders to compete fairly.<sup>8</sup>

BLAIR